

# OFFICE OF THE CLERK/TREASURER

# City of Burlington

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# BOARD OF FINANCE THURSDAY, AUGUST 30, 2012 CONFERENCE ROOM 12, CITY HALL 5:30 P.M.

**PRESENT:** Mayor Weinberger; City Council President Shannon; Councilors Bushor, Decelles; Councilor Paul (arrived late); Interim CAO Sisson

**ALSO PRESENT:** Councilor Tracy; ACAO Goodwin; Peter Owens, CEDO; Assistant City Attorney Richard Haesler; Laurie Adams, Water; Mike Kanarick, Carina Driscoll, Mayor's Office; Scott McIntire, Melanson, Heath and Co.

#### 1. Agenda

Interim CAO Sisson requested an amendment to the agenda to add Contract for the Relining and Repair of Pipes to the agenda because it is time sensitive. The item was added as 2.5.

On a motion by City Council President Shannon and Councilor Bushor, the agenda was adopted unanimously as amended.

#### 2. Public Forum

No one came forward to speak.

## 2.5 Contract for Relining & Repair of Pipes – Wastewater/Stormwater

Laurie Adams, Water Department, stated this work was budgeted for in the Wastewater and Stormwater budgets. This went out to bid all over the City. The focus is to secure streets before problems arise. There was only one bidder that had done this kind of work before. Their references were good and the department is comfortable with them. The total cost of the project will be \$226,270. Interim CAO Sisson stated they will spray this material inside the pipe.

City Council President Shannon inquired what the material is. Ms. Adams stated it is an epoxy. City Council President Shannon inquired if this is for wastewater. Ms. Adams stated it is. She outlined areas of the City they have used this method in. It allows work to be done in manholes without disrupting traffic.

Councilor Decelles inquired how it is applied. Ms. Adams stated it is rolled out. She stated it has been done on Battery Street. Councilor Decelles inquired how much this will extend the life. Ms. Adams stated about 15 years.

Councilor Bushor inquired if this has been done before with a different company. She inquired if this is for all pipes. Ms. Adams stated there are different types of pipes. Councilor Bushor inquired where this project will take place. Ms. Adams stated the biggest stormwater project is

on Dale Road. Interim CAO Sisson stated it will also focus on recently repaved streets so they do not have to be torn up. Ms. Adams stated they will also focus on roads that are about to be paved. Councilor Bushor inquired if livable wage will be paid. Ms. Adams stated it will. Councilor Bushor stated there have been problems with backup on Colchester Ave. She inquired if this liner would help relieve this issue. Laurie Adams stated this takes a rough surface and makes it smooth. It eliminates the friction, but if there are serious problems it may not eliminate backup.

City Council President Shannon and Councilor Decelles made a motion to authorize the contract and recommend City Council approval. The motion passed unanimously.

## 3. Ballot Items

#### b. ½ Cent Tax Increase

Mayor Weinberger outlined minor changes to the resolution to refer to the Bike Path as the Bike Path Network. Councilor Bushor suggested adding network to more places in the resolution. Assistant City Attorney Haesler stated the word network was added to ensure that no one could object to expenditures outside of the Bike Path itself.

Councilor Decelles inquired if the money could be utilized on the Bike Path on Route 127. Assistant City Attorney Haesler stated it could. Councilor Decelles inquired if voters would think this only refers to the Bike Path on the Waterfront. Assistant City Attorney Haesler stated it could be used for anything involving the Burlington Bike Path. It clarifies the legal interpretation.

City Council President Shannon and Councilor Bushor made a motion to recommend City Council approval with the word network added after Bike Path.

Councilor Bushor inquired if money attached is not spent on the Bike Path in that year, will it keep building. Interim CAO Sisson stated it will keep building and will operate identically to Penny for Parks.

The motion passed unanimously.

## a. Fiscal Stability Bond

Councilor Paul arrived.

Mayor Weinberger stated this is an urgent matter. The independent experts who advise the City on the state of finances say that something needs to be done. The top finding in the audit was that there is a liquidity problem. Moody's also cited liquidity issues in their recent downgrade. This puts the City at the brink of being at junk status bonds. This has already created cost issues for the City. Hundreds of thousands of dollars are being spent on interest for short term borrowings that would not have to be paid without this deficit problem. The City's whole system is based on being able to do routine borrowings. Because of the downgrade, \$1,140,000 extra will be spent just this year. Moody's has given the City the lowest security grade rating with a negative outlook. The lower the rating, the higher interest rates become. Something significant needs to be done to turn this around. This is the best solution that will make an immediate impact. The costs will even out over a 15 year period. All other solutions are not immediate and will have a larger

short term cost.

Interim CAO Sisson stated this issue surfaced in the audited financial statements from a year ago. This money will not be used for BT. He stated that at the end of 2010, the City had \$7.2 million in reserve. Reserves are generated through operating surpluses. Reserves have cash in them and must exist to allow borrowing to take place. Comparing the 2010 financial statements to 2011, there was a major change. This is because of a change in accounting principles. This will pay off the full outstanding debt with the exception of the \$16.9 for BT and the Westlake Garage. These are the primary concerns voiced by the auditor and one of three concerns expressed by Moody's in the recent downgrade. The unassigned reserves are negative. Unassigned would normally be the amount available for regular operation. The \$9 million will not create unassigned reserves, but will increase total reserves and available cash. The bond will be part of a restricted fund balance. That should provide reassurance that it will not be used for any other purposes. Language limiting the use of these funds will be included in the bond statement and the City will be contractually obligated to abide by these terms. They will only be used to reduce reliance on short term borrowing. It is much like buying a home and applying for a mortgage. There are a lot of choices on how to structure the mortgage. There are times when interest rates go up, and the variable rate will go up. A fixed rate will stay the same throughout the term and the amount paid each month will be the same. Continued reliance on TANs is like having a variable rate mortgage with balloon payments due each year. There are no guarantees of the rate, or whether it will be renewed. This will place the City in a good position if there is an economic downturn and should be done soon. Currently, the City is exposed in an uncertain market. If a bond issue is authorized for Town Meeting Day, it will be difficult to turn around and issue the bond by June 30. That would mean that it would be necessary to reissue the TAN. This would improve the situation for FY14. There are attractive long term rates available now that may not be available in the future. If the TAN is not renewed in FY13, there will be a fiscal crisis with an inability to pay obligations as they come due. The downgrade has resulted in an increase in the interest rate as part of the TAN contract. It is important to take actions now to have Moody's view the City more favorably. It will be important to increase revenue and decrease expenses. That will help to build necessary reserves. This will take a lot of pressure off of us in having the ability to pay the bills. It will add 2.32 cents to the debt service tax rate. A home assessed at \$250,000 will pay an additional \$60 per year. This is not a lot of money compared with the fiscal security the City, as a whole, will receive.

City Council President Shannon thanked them for the presentation. Many of the issues raised by the Council are addressed here and clearly explained. She stated these funds will be very specific and restricted. When a bond is issued, the restrictions will be in the language, but inquired how the Council will be able to ensure this. Voters will want to be assured of this. Mayor Weinberger stated the budgeting process and the audit will oversee this. Spending money outside of that line would require a budget amendment and would be unauthorized. The bond document can be shared when it is available. This would allow the Council to see the language in the debt instrument itself. Interim CAO Sisson stated they will work to plan the cash flow forecast, which will outline when they intend to use these funds. City Council President Shannon stated she is not worried so much about the Council, but voters who are concerned about how to prevent something like BT from happening again. Putting this in writing will help provide assurance to voters going forward. She would like to see a record of what the restrictions are.

Councilor Bushor stated if this passes, there should be a way to track how the money is being

spent. Updates should be provided to the Board of Finance and City Council. There have been times in the past this has not happened as promised. It should be part of the Board of Finance agenda to review the status of the fund. She does not know what language should be on the ballot, but it should be very clear to voters how these funds will be tracked. It would need to be consistent with the appropriate uses.

Councilor Paul stated about \$1.5 million has been accumulated and added to the reserve fund. It seems that the fund balance was close to nothing in 2006. Over the past six years, that number has grown. The first question is if that number is increasing each year, why not continue accumulating those funds until \$9 million is reached. The second question is why \$9 million is needed all at once. She stated she has answers to these questions, but would like to hear the administration's explanations. She inquired what any other alternatives could address these problems. Interim CAO Sisson stated if the surplus is more than \$500,000 for FY12, he will be surprised, and the FY13 budget is even tighter and there will be a very modest surplus. Councilor Paul stated it is important that people know that. Mayor Weinberger stated if this does not pass, it would require tax increases or expense reduction to continue to build those surpluses. It will be very difficult to get there and the City will be exposed to risks. Scott McIntire, Melanson & Heath, stated that being an independent auditor, he cannot answer all of the questions. It does seem like there has been a trajectory of increasing the fund balance. However, there are constraints on some of the reserves. The total fund balance is increased, but may have restrictions. Some of that comes from restricted tax revenues, such as Pennies for Parks. Councilor Paul stated the management letter states it is important to stop short term borrowings. She inquired if selecting \$9 million as the amount is a management decision or if he as an auditor would support it. Mr. McIntire stated it is a management decision. This could be done for any amount. He stated the \$9 million amount was arrived at because it would bring the unassigned balance to zero. Mr. McIntire stated it would improve the balance sheet. Councilor Paul inquired if this would eliminate the number one concern in the management letter. Mr. McIntire stated it largely would, so long as everything else remained equal. It is unclear what FY12 and FY13 will look like and improvements will take place over time. Mayor Weinberger stated the plan takes into account that this will make improvements over time. The \$9 million fiscal stability bond is only one portion of the plan to address this. All of these balances will be addressed. The fiscal stability bond would have an immediate impact. Mr. McIntire stated he is unsure if the impact would be that immediate. He outlined the balances at the end of FY11. He stated there is\$16.8 million dollars that needs to become zero. This plan attempts to solve all but \$16.9 million of this for BT. It will only solve \$8.6 million of the problem. There is still a problem of \$8.2 million. That is where the \$9 million comes into play. It will not completely correct this number because there are external restrictions. This debt will exist until the bond is paid off. The proposal is to pay it off in 15 year, which is \$600,000 per year. Essentially, the overall problem is reduced at a rate of \$600,000 per year.

Councilor Bushor requested clarification of the repayment schedule. Mr. McIntire stated it will be paid off incrementally. Councilor Bushor inquired if the total will not be at zero until year 15. Mr. McIntire stated that is correct if everything else remains equal.

Councilor Paul inquired if he has seen any other alternatives to this kind of bond. Mr. McIntire stated he has worked with communities in challenging positions and has seen this type of issuance. Other communities have increased revenue and decreased expenses. To make that become zero, there needs to be an increase in revenue without corresponding expenditures. The

\$9 million will be revenue in substance, but it does not become zero until the tax rate pays off the whole \$9 million without any constraints.

Councilor Decelles inquired if the unfunded balance of \$16.8 million is related to BT. Mr. McIntire stated it just happens to be a very similar number. Councilor Decelles inquired if this could be in violation of the CPT? Mayor Weinberger stated he is confident that this is not in violation, but he would not be surprised if someone tried to raise objections. Councilor Decelles inquired if there are any new figures that could affect how much is borrowed. Mayor Weinberger stated the final numbers for FY12 are not in and not expected before the meeting on September 10. He does not expect a deviation from the \$9 million.

Councilor Bushor stated she is trying to figure out why \$9 million was chosen. She would have preferred to have some options presented. She did not previously understand that the \$9 million will not repair the City's financial problems instantly. She did not understand why the full amount or a smaller amount was not being considered. The reserves go up and down and can be hard to predict. They are not as large as they have been and are not growing at a constant rate. She feels like she has only been given one choice. The timeline is tight, but she would have preferred to have a conversation earlier about what the right choice is. She stated there is a financial hole and the City is trying to be better financially, and there are agencies that look at the City. She inquired if using the reserve to pay back debt weakens the financial position. The previous administration stressed that having a reserve was important and it provided protection. She requested more clarification about the reserve. Mr. McIntire stated the unassigned fund balance should be positive at about 5-10% of the annual budget. Councilor Bushor stated she is trying to understand what is being proposed and what will be accomplished. The reserve needs to continue to grow, and short term borrowing needs to end. Mr. McIntire stated those are mutually exclusive. Doing something like this would solve the short term borrowing issue. However, it does not provide the reserve that is needed. More revenue without expenditures will be needed to grow the reserve. That is a long term goal. Mayor Weinberger stated this does not solve all financial problems, but directly addresses the short term borrowing problem. Councilor Paul stated there could very well be a tax increase next year separate from this. Mayor Weinberger stated this does not mean there will not be challenges to balance the budget next year. There are agreements the City has made that drive costs each year. If this issue is not attacked in this way, there will have to be cuts to the operating budget. Approving this takes a substantial amount of pressure off of next year's operating budget. The Council and the public will ultimately appreciate this. There are services that the City wants and people do not want large tax increases., this will accomplish that.

City Council President Shannon stated \$500,000 is being spent on interest each year and inquired if that comes out of the operating budget. Mayor Weinberger stated it will save about \$300,000. City Council President Shannon stated it frees up some money in the budget and there is some direct impact. Councilor Bushor inquired what fund this is paid from. Interim CAO Sisson stated it is paid out of debt service because it is long term debt. Councilor Paul stated doing short term financing is like kicking a tin can down the road paying interest only. The number increases each year. The part that will be confusing to people is that the interest rate is low on the TAN and the rate on the bond will be higher. It is important to understand that a bond is actually paying down a debt, rather than what is happening now. That is getting lost in the conversation and it is very important. This will is a responsible action to reduce a debt that is not going away. It will not instantly solve the problem, but it will over time. It also shows Moody's that there has been a

change in course. Mayor Weinberger stated Moody's has been paying attention. Interim CAO Sisson stated they do not want to exceed \$9 million and will write the language in the resolution in this way. There will be more information available by the time the bond is actually issued.

City Council President Shannon and Councilor Paul made a motion to approve the bond and recommend City Council approval with changes to the ballot language to reflect the use of the proceeds.

Assistant City Attorney Haesler and Interim CAO Sisson stated they will work on the ballot language.

Councilor Decelles stated that everyone understands there are financial problems. He would have liked to see a more comprehensive plan and updates for the Council about the plan to eliminate BT's debt. He hoped that this administration would handle Telecom differently than the last administration. It is hard to predict what voters will do. There is a sense that this will be paying for BT. He will not support this. Mayor Weinberger stated the Council knows exactly what the situation with BT is. He is surprised to hear that argument. Councilor Decelles stated they have not held a meeting. The last update the public received was given was under the Kiss administration. There has not been any public information distributed about BT. Many people will not agree with this, and he stated he is one of them.

Councilor Bushor stated she would have preferred a different approach to this presentation. She would have like to refer this to the Council for action. The full Council will have to have this discussion again. She feels rushed in this decision and has concerns that this is not the only option out there. She does not want to mislead residents to believe that there will be no tax increase. This needs to be explained to voters that this is only one piece of the problem, and will not fix all of the problems. They should know what other things are being contemplated. There should be a global presentation to explain the problem and what the pieces to solving it are. It is better to begin dialogue earlier rather than later. She will support moving this forward, but may change her mind before September 10. She is open to other suggestions if they come forward.

The motion passed by a vote of 4-1 with Councilor Decelles voting against.

## c. Waterfront TIF Financing

Mayor Weinberger stated this will be discussed through a phone meeting before the next Council meeting. Councilor Paul stated they should hold another meeting next week.

The meeting was adjourned at 7:06 pm.